Wal-Mart Stores, Inc. Annual Report
Fiscal Year Ended January 31, 1976

Financial Highlights

Two-Year Comparison

	1976	1975	Percentage Change
Current Assets	**$76,070,000**	$55,860,000	+36.18
Current Liabilities	**$32,945,000**	$26,190,000	+25.79
Working Capital	**$43,125,000**	$29,670,000	+45.35
Current Ratio	**2.31**	2.13	
Stockholders' Equity	**$48,454,000**	$36,935,000	
Number of Shares Outstanding	**13,418,063**	6,659,650	

Five Years at a Glance

	1972	1973	1974	1975	1976
Net Sales	$78,015,000	$124,889,000	$167,561,000	$236,209,000	**$340,331,000**
Income before income taxes	$ 5,569,000	$ 8,917,000	$ 11,884,000	$ 12,208,000	**$ 22,798,000**
Net income	$ 2,907,000	$ 4,591,000	$ 6,159,000	$ 6,353,000*	**$ 11,506,000**
Net income per share**	$.24	$.35	$.47	$.48*	**$.80**
Number of stores in operation at the end of the period	51	64	78	104	**125**

**See Note 2 to financial statements for information concerning adoption of LIFO method of costing inventories which resulted in a reduction in net income of $2,347,106 or $.18 per share.*

***Restated for the two-for-one stock split in 1976.*

To Our Shareholders:

Fiscal year ended January 31, 1976, was the most successful year in the history of Wal-Mart with sales and net income both reaching record levels. Company sales were $340.3 million compared to $236.2 million last year, an increase of 44 percent. Sales, including our leased shoe, jewelry, and pharmacy departments, increased to $368.7 million from $255.8 million for fiscal 1975. Our net income rose to $11.5 million, or 80 cents per share, fully diluted, in 1976, representing an 81 percent increase over the 1975 income of $6.4 million, or 48 cents per share.

In order for our shareholders to participate in the success of the Company, dividends were increased in the third quarter from an annual rate of 6 cents to 8 cents a share. The Board of Directors plans to continue to make distributions to shareholders from earnings, combined with a prudent expansion program to assure Wal-Mart's position as a leading retail growth company.

Wal-Mart completed the year with 125 stores in operation, an addition of 21 stores during the year. The new stores increased our square footage 23 percent to a total of 5,295,000 square feet. The financing of new store inventories and fixtures was primarily through the reinvestment of earnings, combined with bank borrowings, until May, 1975, at which time, the Company issued $15 million of 6½% convertible subordinated debentures. It is anticipated that future expansion will be primarily financed through earnings.

Naturally, we are pleased with the financial results. Here are some major reasons for this outstanding performance in growth and profit at Wal-Mart . . .

— The upturn in the economy and in consumer spending for the past year was evident in our marketing area. The last half of the year was surprisingly strong in terms of our customers' willingness to purchase high ticket items.

— Our total expense decreased from 21.1 percent of sales in 1975 to 20.5 percent of sales this year. The primary force lending to expense ratio improvements was increased sales volume. Our stores that were open at least a full year had a 15 percent increase over their 1975 sales. Inventories in these stores at January 31, 1976, were approximately the same as a year ago. The utilization of our 150,000 square foot Distribution Center, which began operation in January, 1975, improved inventory control. We are now able to maintain a better in-stock position and improve return on investment in inventory because of the advantages of this rapid replenishment system.

— As outlined in our goals a year ago, we were able to open our new stores earlier in the year, thereby allowing some maturity of these stores and full concentration on the fourth quarter as well as Christmas sales.

— Another factor was increased productivity and efficiency of Wal-Mart associates at all levels brought about by experience and our newly instigated training program.

— The fashion merchandise market is one of the most dynamic and profitable areas in merchandising. We have implemented a new fashion goods unit control system which utilizes computer prepared magnetic tickets to track the sales rate of this merchandise category. The system provides the buyer with distribution information for replenishment of store inventories.

Our two Sav-Co Home Improvement Centers have shown improvements during the current year; however, they are still not operating at our expected profitability level. We will continue to critically evaluate this operation.

In these days of loss of credibility by corporate citizens, we have established an active Audit Committee of the Board of Directors. Messrs. Jones, Remmel and Stephens have been charged with the responsibility of reviewing the reporting and control practices of the Company with our certified public accountants and our financial management. The Committee reviews are without restraints and will provide Wal-Mart with additional independent financial control.

We look forward to our continuing challenge of developing Wal-Mart as the leading regional discount chain. We plan to emphasize the same priorities that have contributed to the success of this Company. To reach our sales goals of approximately $440 million and other profit goals for fiscal year ending January 31, 1977, we have set the following objectives . . .

— We will continue our program of opening new stores prior to November 1, thereby enabling us to concentrate on the Christmas season. We plan to open approximately 25 new stores and to relocate two existing stores to larger facilities for a net increase of 1,200,000 square feet.

— We will accelerate our training and development programs for all Wal-Mart associates to effect an even stronger organization; using to the best advantage the potential which exists within our present management staff and blending from outside our organization the talent and expertise we need.

— We will continue to maintain our leadership in competitive pricing and expense control.

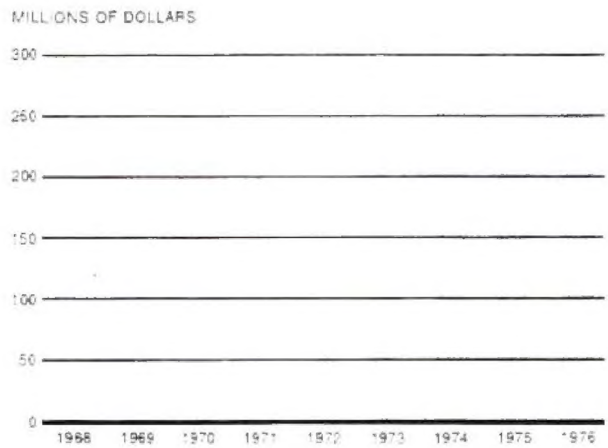
— We will fine-tune our inventory control program and continue to improve our inventory turnover and sales per square foot.

My personal, sincere gratitude to all my associates for their splendid performance during 1976, and my equal thanks to our shareholders for their contributions to help us grow and prosper. To our customers, we especially owe our success and pledge to continue to provide quality merchandise at discount prices and always "Satisfaction Guaranteed".

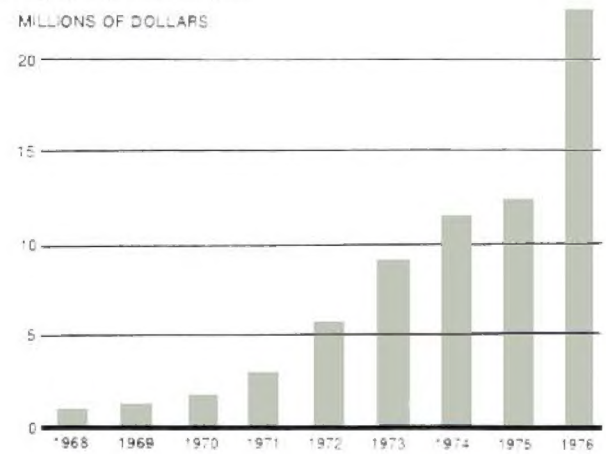
Ronald Mayer
Chairman and
Chief Executive Officer

Graphical Information

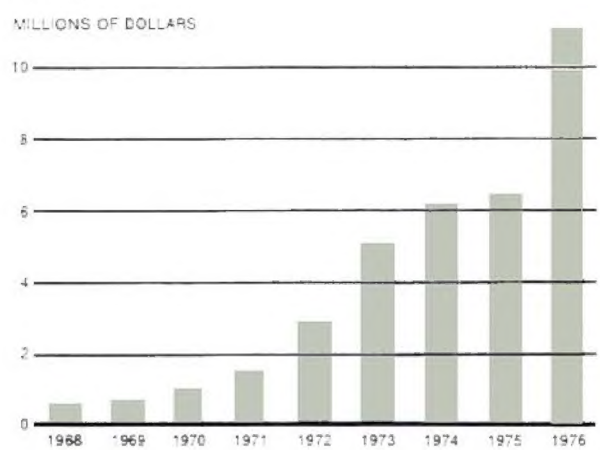
NET SALES



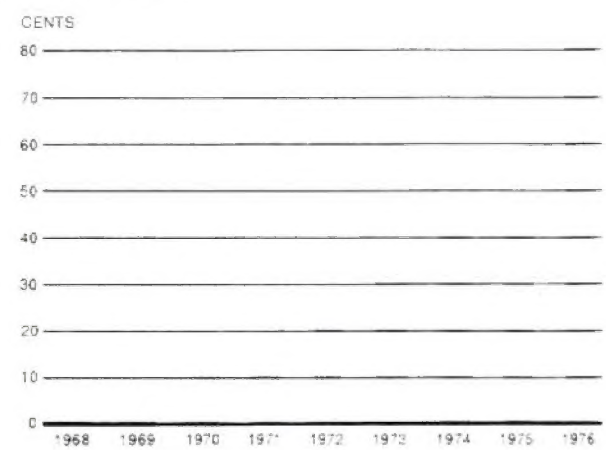
INCOME BEFORE INCOME TAXES



NET INCOME

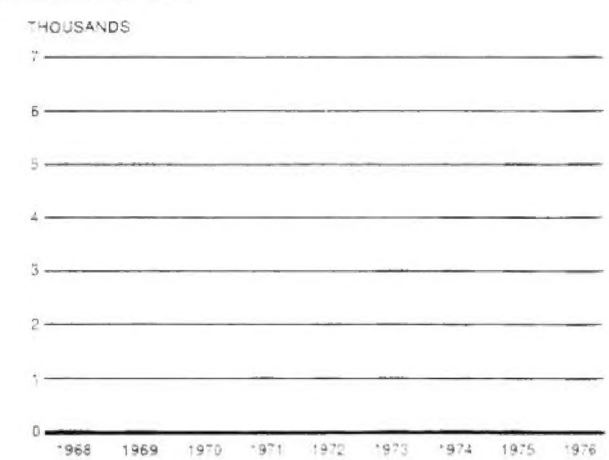


NET INCOME PER SHARE



TOTAL SQUARE FOOTAGE — STORES

NUMBER OF EMPLOYEES



Wal-Mart Stores, Inc.

General Information

Wal-Mart, at January 31, 1976, operated 125 discount department stores, including two Sav-Co Home Improvement Centers and two Family Center stores. Forty-one stores were located in Arkansas; thirty-nine in Missouri; twenty-three in Oklahoma; seven in Kansas; six in Tennessee; four in Louisiana; three in Mississippi; and one each in Kentucky and Texas.

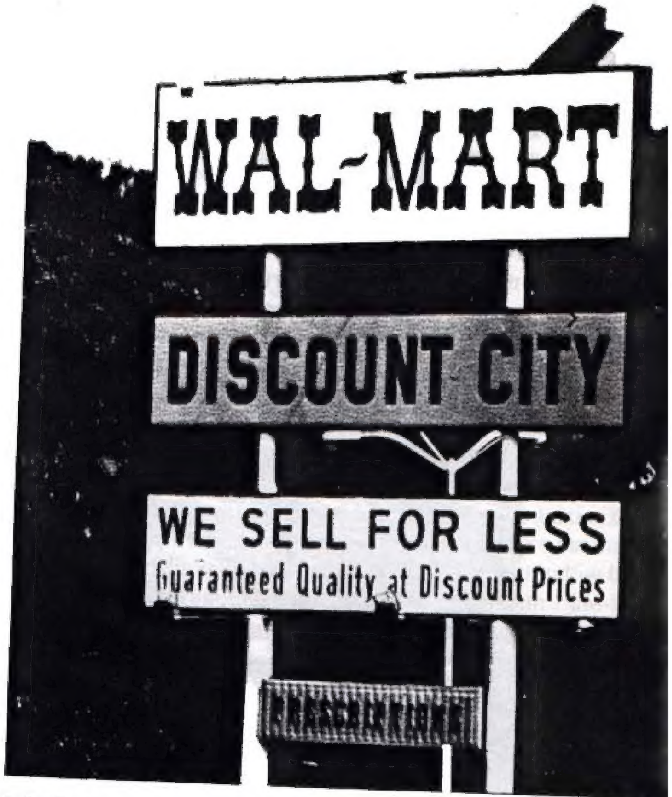
The Company's first unit was a franchised Ben Franklin variety store, opened in 1945, in Newport, Arkansas, by Sam M. Walton. In 1946, his brother, J. L. "Bud" Walton, opened a similar store in Versailles, Missouri. Until 1962, the Company's business was devoted to the operation of variety stores. In that year, the first Wal-Mart Discount City store was opened in Rogers, Arkansas. Since that time, the emphasis of the Company's business has been on the discount department store concept.

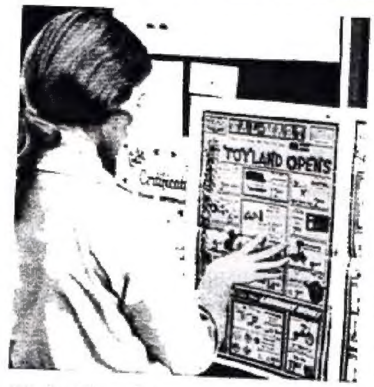
Growth

On January 31, 1971, Wal-Mart had a total of **38** stores in operation; at the end of fiscal 1972, the number had increased to 51. On the same date in 1973, the total was **64** stores; in 1974, **78**; in 1975, the number of stores had increased to **104**; and for fiscal year ended January 31, 1976, Wal-Mart had **125** stores in operation. . . . an increase of **87** stores in a five-year period. Twenty-two stores were opened in fiscal 1976, for a total of 993,436 square feet of additional store space. One of the new stores, a 25,000 square foot Ben Franklin variety store, located in Rogers, Arkansas, was closed in January, 1976.

Store Policy and Operations

With few exceptions, the Company's policy has been to open its discount department stores in small communities with a population of 5,000 to 25,000 people with the average being 10,000 to 15,000. Generally, the stores are the largest non-food retailers in their respective communities. The average size of a Wal-Mart Discount City store is approximately 42,000 square feet, and nearly all are between 30,000 and 60,000 square feet in building area. This is in contrast to other nationally known discount chains, which have traditionally concentrated their locations in larger communities. In most cases, Wal-Mart leases buildings that have been constructed to its specifications, either in shopping centers, or in free-standing locations with off-street parking.





The Wal-Mart Discount City sign has become a familiar sight throughout the Company's nine-state marketing area.

The Company carries on an extensive advertising and promotional program. Each store prominently displays current ads and sees to it that advertised merchandise is available.

Pleasant and courteous customer service is the goal of every Wal-Mart associate.

All stores are air-conditioned and have modern fixtures and equipment, including carpeted areas for the sale of wearing apparel in most stores. Wal-Mart stores feature thirty-six full-line departments and offer a wide variety of merchandise, including wearing apparel for women, girls, men and boys. Each store also carries curtains, draperies, handbags, shoes, housewares, hardware, paints, home furnishings, small appliances, automotive accessories, garden equipment and supplies, sporting goods, toys, photographic supplies, health and beauty aids and jewelry. Nationally advertised, name brand merchandise accounts for a majority of non-clothing sales and a minor portion of clothing sales at Wal-Mart stores. The Company sells only limited lines of merchandise under its own brand names.

Generally, the Company's Wal-Mart stores are open six days a week, from 9 a.m. to 9 p.m. The Company endeavors to price all merchandise low, below the manufacturer's suggested retail prices, and to meet or undersell local competition, except for items covered by Fair Trade Laws, which constitute a negligible portion of sales. Wal-Mart stores maintain uniform prices, except where necessary to meet local competition. Sales are primarily on a self-service, cash and carry basis with the objective of maximizing sales volume and inventory turnover with minimum overhead expense. However, bank credit card programs, operated without recourse to the Company, are available in all stores. Wal-Mart maintains an "unconditional money-back guarantee" program to promote customer good will and acceptance. "Guaranteed customer satisfaction" and "low everyday discount prices" continue to be Wal-Mart's two guiding principles.

Security and Loss Prevention

The function of the Security and Loss Prevention Division is to observe all facets of store operations in order to uncover and correct problems leading to shrinkage and loss to the store and the Company. This department assists management in training associates in correct policy and procedure to assure accurate operation and record keeping. In addition, the Division maintains good relations between Wal-Mart and law enforcement officials.

The Wal-Mart Security and Loss Prevention Division has established programs in shoplifter apprehension, checker and checkout supervisor training, lay-away and gun control, and employee awareness. Shoplifter apprehension includes preventing loss due to concealed items and switched tickets, as well as the investigation, interrogation and prosecution of persons apprehended for robbery, break-ins and thefts. Checker and checkout supervisor training involves working with management to train and assist employees in loss prevention techniques. A variety of training techniques are used, including training films, security meetings, and incentive programs. Gun record control is mandatory, and every effort is made to fully comply with the law. Regular contact is maintained with the news media to publicize Wal-Mart's security policies.

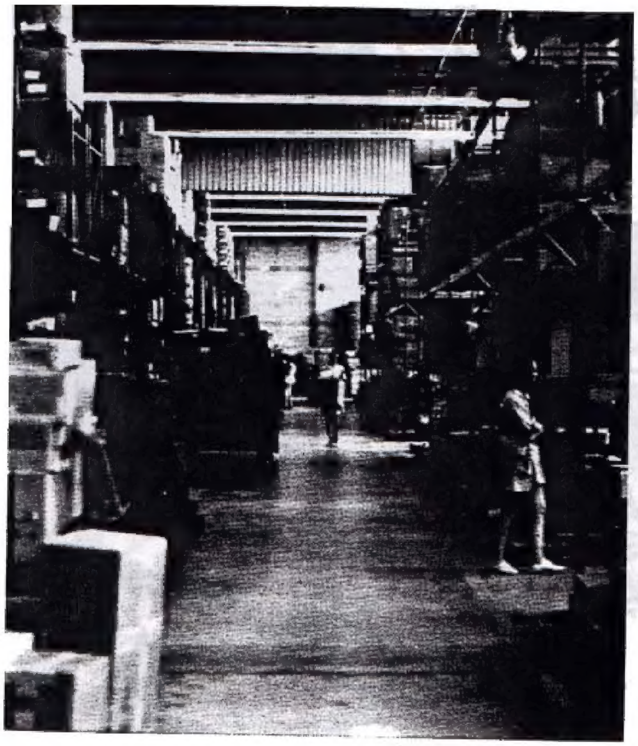
Distribution

During fiscal 1976, approximately 80 percent of the Wal-Mart store purchases were shipped from the Company's Warehouse and Distribution Center located in Bentonville, Arkansas. The balance was shipped directly to the stores from suppliers. The

Company's 238,800 square foot Warehouse is used to assure a constant supply of staple merchandise for the stores and to inspect and price certain clothing and accessory merchandise to maintain uniform quality control and pricing policies. The 150,000 square foot Distribution Center, which was completed in 1975, is used as a redistribution center for bulk shipments on which savings can be realized through quantity buying and reduced freight charges. All Wal-Mart stores are located within a 350-400 mile radius of Bentonville. The Company leases tractors and trailers which it uses for delivery of goods from its distribution facilities to its stores.

Data Processing

Wal-Mart leases an IBM 370/135 computer system which is utilized to maintain inventory control on an item basis for all merchandise in the Warehouse and Distribution Center and on a classification basis for each store. This equipment maintains all payroll and accounts payable records, provides sales analysis on departmental basis for each Wal-Mart store, and prepares income



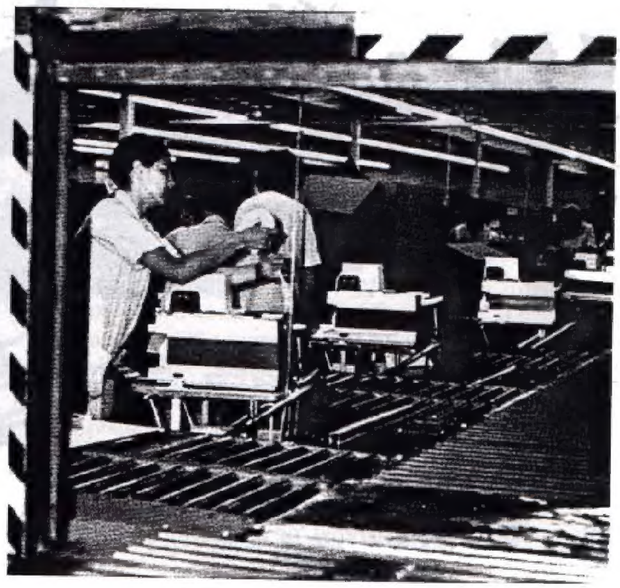
Wal-Mart leases an IBM 370/135 computer system which is utilized to maintain inventory control on an item basis for all merchandise in the Warehouse and Distribution Center and on a classification basis for each store.

Assistant Store Managers work closely with department heads and sales personnel to assure each department runs smoothly and efficiently.

The Company's warehouse ordering program provides stores with an opportunity to order quantities needed to keep merchandise in stock, yet maintaining a good inventory position.

Wal-Mart's 388,800 square foot distribution and warehouse facilities provide a source of constant re-supply of basic and promotional merchandise to the stores.

The Quality Control department assures all clothing sold in the Company's stores is inspected and price ticketed prior to shipment.



statements on a store by store basis. Singer electronic cash registers in **64** Wal-Mart stores and NCR mechanical and electronic registers in **61** Wal-Mart stores record point of sale data used to maintain inventory control.

Merchandising

All purchasing and merchandising for the Wal-Mart stores is controlled from the Company's General Offices through centralized buying and planning practices. In the fiscal year 1976, no supplier to the Wal-Mart stores accounted for more than 2% of the Company's purchases.

Advertising

The Company carries on an extensive advertising and promotional program for its Wal-Mart stores, which is directed from its Advertising Department. Management estimates that the local Wal-Mart store is the largest newspaper advertiser of non-food items in most of the communities in which its stores are located. Advertising circulars are distributed approximately 12 times yearly throughout the trading area and television is used for area promotions. The Company has a plant for printing advertising circulars and newspaper inserts.

Store Management

Each store is managed by a store manager and two or more assistant managers. The Company maintains a training program for managers, assistant managers, department heads, and sales personnel. Most of the Company's present store managers have been trained in this program. It has always been Wal-Mart's policy to develop people and to promote from within the Company.

Company Personnel

As of January 31, 1976, the Company had over 7,500 full-time and part-time associates — an increase of approximately 1,700 for the year. Wal-Mart continues to attract and to hold outstanding people throughout its operations. During the year, 824 associates became participants in the Company's Profit Sharing Trust Plan, which, until January 31, 1976, required two years' full-time employment for eligibility. Effective February 1, 1976 associates become participants in the Plan after one year of continuous employment.

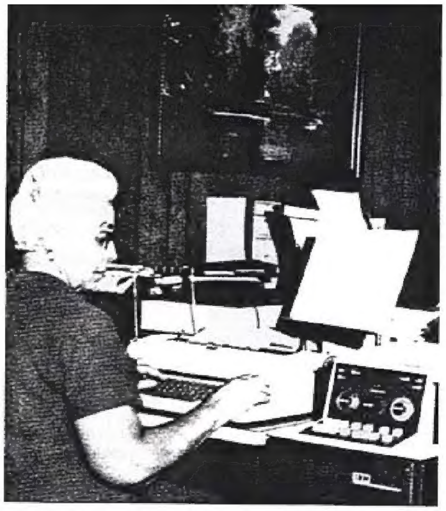
Wal-Mart's well-equipped Word Processing Center, with its highly skilled operators, serves a vital link in the Company's communication program.

One of the highlights of the year-end meeting is the special session held for spouses of Wal-Mart store management where they have an opportunity to discuss their roles with Wal-Mart executives.

Store Management personnel and their spouses participate in an annual meeting conducted by Wal-Mart corporate management.

A series of seminars was offered to Wal-Mart associates on a voluntary basis. The program was accepted enthusiastically with over 150 headquarters' personnel completing the six-week course.

A Customer Checkout training program was instituted in all stores in 1975, which has improved checkout efficiency and upgraded customer service.



Developing Corporate Personnel

The strength and success of any growing corporation lies in the ability and professionalism of its associates. To this end, Wal-Mart Management continues to make a concentrated effort to look within its ranks for undiscovered or undeveloped management potential.

Promotions Within the Company

In January of 1975, two women became Corporate officers, followed by the promotions of several more women to management positions at store level and in the General Office. Other women have been promoted to key supervisory responsibilities within the Company. Additionally, a marked increase of minorities in management and throughout the Company has been achieved.

Emphasis on Company-Associate Relations

Wal-Mart has always provided outstanding benefits for its people, including a liberal profit-sharing plan, and this program continues to grow. More team spirit was encouraged throughout the Company, when for the first time, the General Office and Distribution Center personnel, headquartered in Bentonville, Arkansas, participated in an Annual Picnic. The feeling of belonging to "one big family" was the outcome, and this feeling lingers on, creating much enthusiasm and dedication.

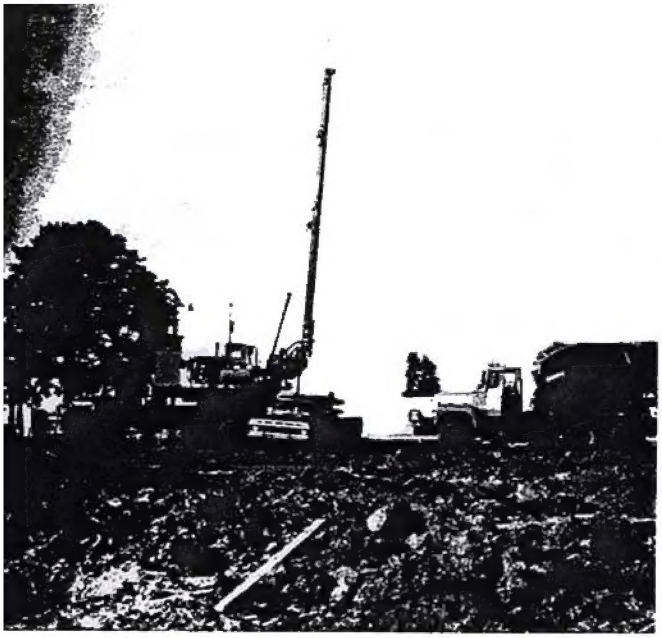
Associate Orientation

One of the oldest and most helpful aids to new and experienced associates, alike, is the orientation meetings held each month at the General Office and, periodically, in the stores. These sessions acquaint the associates with Company policy, procedures and benefits, and offer the opportunity to present questions and receive intelligent answers. Another aid is the Employee Handbook, clearly stating rules, regulations, and benefits of being affiliated with Wal-Mart. In addition, the Company newspaper, the **Wal-Mart World**, provides another source of information for associates. Periodically, it features a department within the Company and explains its functions in laymen's language, helping associates to understand the complexities involved in operating a large and rapidly expanding retail organization. At the same time, the paper endeavors to keep each individual informed of the happenings within the Company, and additional benefits, such as the Walton Scholarship Foundation.

Communications and Human Relations

Another program that has been offered to Wal-Mart associates is the presentation of a seminar in Communications. This seminar is a direct result of numerous requests by management and General Office personnel. It is devoted to an in-depth analysis of the common barriers to communications and to written and oral communications, particularly as they relate to job performance.

This seminar is followed by a three-week course in Human Relations — again — at the request of participants. This is just another indication of the enthusiastic determination of Wal-Mart associates to improve the quality of their work and realize their greatest potentialities.



Wal-Mart's General Office, located in Bentonville, Arkansas, is undergoing a 31,000 square foot expansion. The new, two-story addition should be ready for occupancy by April, 1976.

Wal-Mart Expands General Office

A two-story addition to the General Office building in Bentonville, Arkansas, is well underway. The addition will house the Merchandising, Advertising, and Sales Promotion Divisions.

Early in 1975, it became apparent that Wal-Mart had once more outgrown its General Office facilities, and plans were drawn for a new 31,000 square foot addition to be constructed on the west side of the present structure. The construction of this addition will greatly relieve the congestion in the main offices, which is the result of the continued growth of Wal-Mart. As the Merchandising, Advertising, and Sales Promotion Divisions move into the new structure, other divisions will move over to occupy the space formerly used by them. This is the seventh in a series of expansions experienced by Wal-Mart's General Offices.

The first office was established above Walton's Family Store in Bentonville, Arkansas, in 1955. In 1957, the office was moved to a small building on Southeast A Street, where it remained until the initial portion of the present facility was completed in November, 1969. That building was soon outgrown and the need for a distribution center was felt. Construction of an addition large enough to house a distribution center, increased office personnel, and offices for buyers, began in 1972.

On December 3, 1972, open house was held. The new addition, plus the original building, then comprised 263,800 square feet — 25,000 square feet of office area, and 238,800 square feet of distribution space.

The Company continued to grow and additional facilities were needed. In 1974, a new 18,000 square foot building was raised northwest of the General Office building for the Store Planning and Opening Department and Fixture Shop, and on January 6, 1975, another distribution center was completed and put into operation. This new Distribution Center is 150,000 square feet in area and is used solely for a redistribution point.

Completion of the new addition to the General Office building addition is scheduled for April, 1976.

Field use of Wal-Mart training programs using audio-visual methods brings instruction to the stores. Here, associates at Rogers, Arkansas, intently follow a program dealing with in-store security. Pre and post discussion is employed by trainers to further localize the material.

Wal-Mart Training Program Underway

In June 1975, Wal-Mart Stores, Inc. established its first Training Department, with the expressed intent of formulating and implementing — rapidly — a concrete program of practical training for Company associates. With the rapid growth of the chain, Wal-Mart Management recognized the need for professional training and development. It was, in fact, one of the Company's announced goals for the year, and its realization marks Wal-Mart's commitment for continued excellence in its human resources.

Training and development in American business, and particularly the retail industry, is not unique. However, as with many other Wal-Mart operational aspects, it is both innovative and practical. Current emphasis is being given to basic subjects of an everyday nature encountered by associates at the store level. This priority, grass-roots training, was set after careful analysis of the greatest current training needs. Managerial and organizational development plans are now being formulated, with formalized programs for headquarters and field managers being actively researched. However, the "return on investment" at the present in Wal-Mart training is, indeed, the associates who are our front line — the store personnel.

With that context, and in order to take advantage of relatively inexpensive training tools with maximum impact, the Company is engaged in audio-visual programs prepared in Bentonville and distributed for field use. Utilizing color slides and synchronous taped narration and sound effects, the Training Department has thus far prepared presentations dealing with ordering, checkout, shoplifting, store-level purchase orders, and Company orientation and indoctrination. Scheduled for development in the immediate future are programs dealing with accident prevention, employee benefits, work motivation, merchandise display, and customer relations.

Each slide/sound program is shown on a scheduled basis within each of the Company's districts by either the District Manager or another qualified person. The human communications involvement adds a further dimension to the total training package concept. Discussion before and after the program presentations stimulates employee thinking on the subject and encourages group discussion. Depending on the subject matter, printed material and other training aids are employed. The ordering program, for example, even included billfold-size reminder cards of significant points in Wal-Mart's sophisticated ordering system.

Employee reaction to the training programs has been excellent. The practical, not theoretical, approach has been particularly beneficial because it attacks common, real-life, everyday problems in running our business. At the same time, one additional noticeable reaction has been the **esprit de corps** and Company identification associates feel at seeing their counterparts portrayed in the training situations.

Photographs on these pages show preparation, field use, and actual slides used in the program.

Typical scenes from training programs used at Wal-Mart show an intermix of visuals from title slides to "how-to-do-it" illustrations. All scenes portray actual Wal-Mart stores and real Wal-Mart associates.

Wal-Mart produces its own training programs, utilizing in-Company resources for technical expertise and accuracy, as well as maintaining complete internal control over the entire program from inception to field use.

Wal-Mart Expands Market to Include Texas

ARKANSAS

Batesville
Benton
Bentonville (2)
Berryville
Blytheville
Booneville
Brinkley
Clarksville
Conway
Fayetteville
Forrest City
Fort Smith
Harrison
Hot Springs
Jacksonville
Jonesboro
Little Rock
Magnolia
Mena
Morrilton
Mountain Home (2)
Nashville
Newport
N. Little Rock (2)
Osceola
Paragould
Pocahontas
Rogers (2)
Russellville
Siloam Springs
Springdale (2)
Stuttgart
Van Buren
Walnut Ridge
West Memphis
Wynne

MISSOURI

Aurora
Ava
Bolivar
Branson
Camdenton
Cameron
Carthage
Clinton
Columbia
Desloge
Dexter
Eldon
Farmington
Festus
Fulton
Harrisonville
Jackson
Jefferson City
Joplin
Lebanon
Marshfield
Mexico
Moberly
Monett
Mountain Grove
Neosho
Nevada
Perryville
Poplar Bluff
Salem
Sikeston
Springfield
St. Robert
Sullivan
Troy
Warrensburg
Waynesville
West Joplin
West Plains

OKLAHOMA

Ardmore
Bartlesville
Broken Arrow
Broken Bow
Chickasha
Claremore
Grove
Guthrie
Hugo
Idabel
Miami
Muskogee
Okmulgee
Poteau
Pryor
Sallisaw
Sapulpa
Seminole
Shawnee
Stilwell
Tahlequah
Vinita
Wagoner

KANSAS

Chanute
Coffeyville
Fort Scott
Junction City
Leavenworth
Manhattan
Pittsburg

TENNESSEE

Brownsville
Covington
Martin
Milan
Millington
Ripley

LOUISIANA

Bastrop
Minden
Ruston
Vivian

MISSISSIPPI

Booneville
Corinth
Starkville

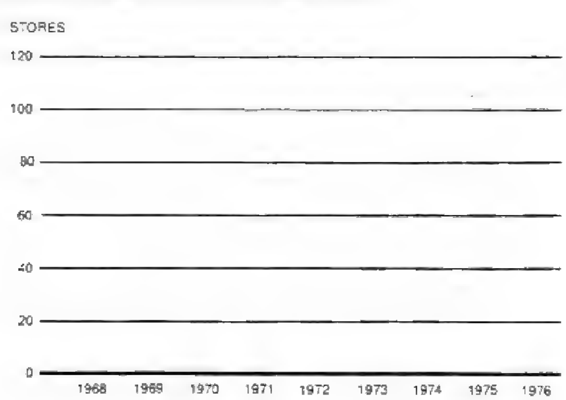
KENTUCKY

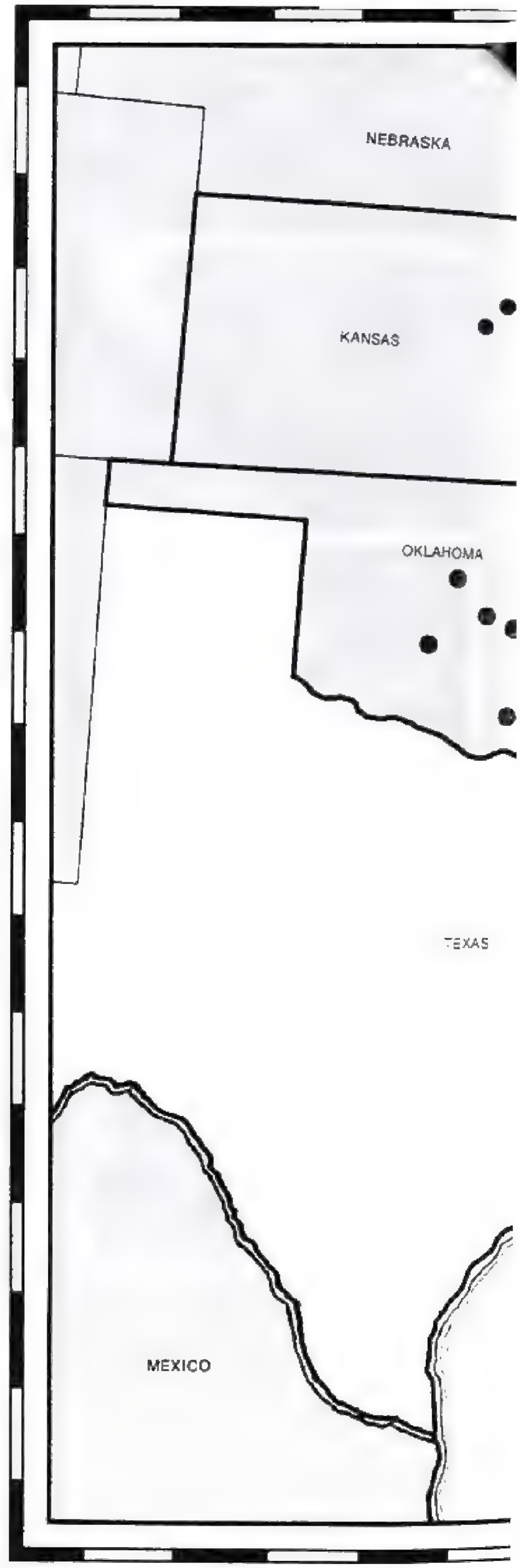
Fulton

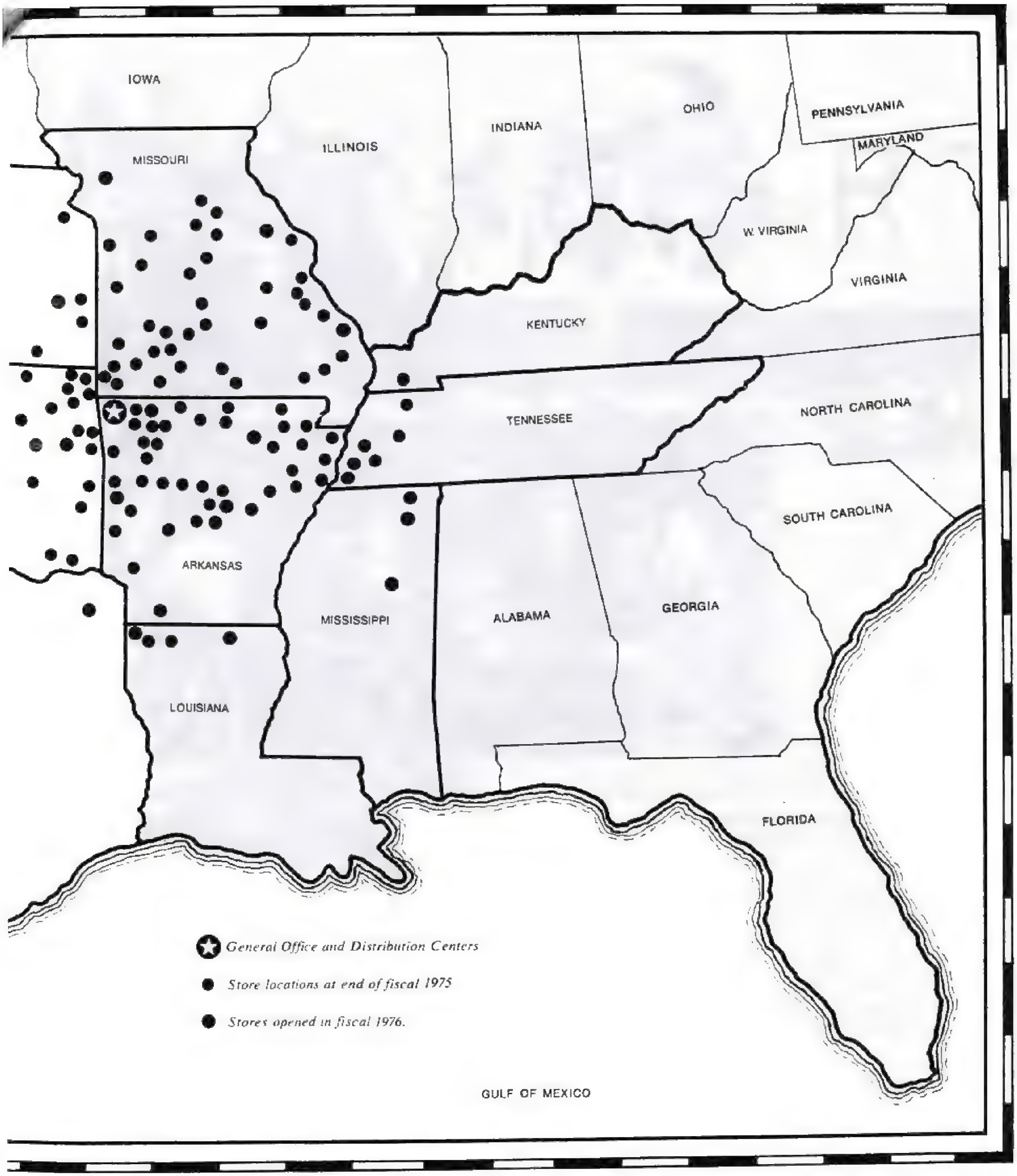
TEXAS

Mount Pleasant

NUMBER OF STORES IN OPERATION AT END OF PERIOD





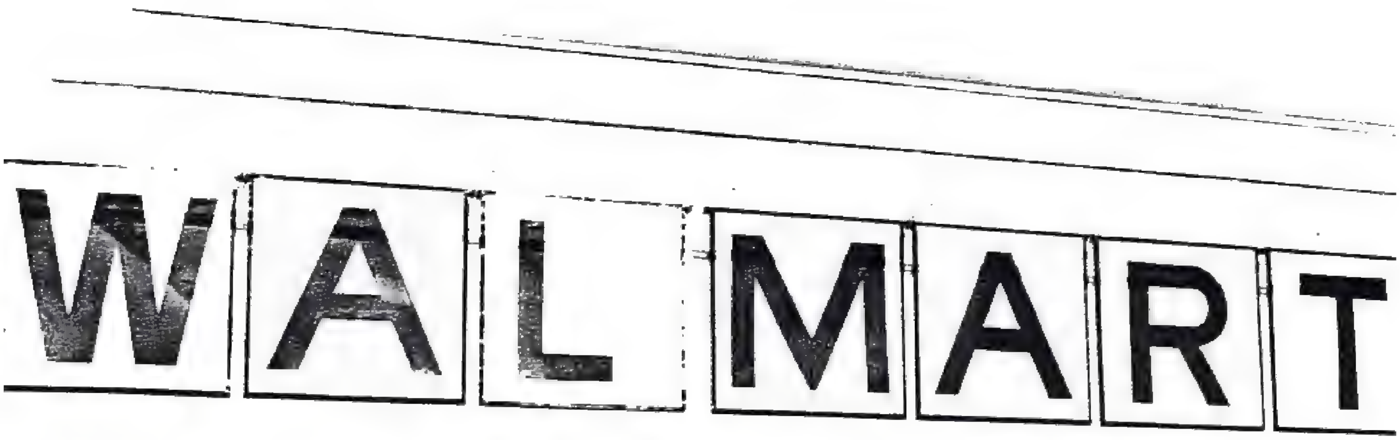

IOWA
ILLINOIS
INDIANA
OHIO
PENNSYLVANIA
MARYLAND
MISSOURI
W. VIRGINIA
VIRGINIA
KENTUCKY
TENNESSEE
NORTH CAROLINA
SOUTH CAROLINA
ARKANSAS
MISSISSIPPI
ALABAMA
GEORGIA
LOUISIANA
FLORIDA
GULF OF MEXICO
General Office and Distribution Centers
Store locations at end of fiscal 1975
Stores opened in fiscal 1976.

Wal-Mart Opens Twenty-Two New Stores

President and Chief Operating Officer, Ferold G. Arend, extends cordial greetings to those gathered for the Grand Opening of the 30,000 square foot unit in Jackson, Missouri.

Brief, well-planned ribbon-cutting ceremonies are conducted at each new store opening.

The 32,000 square foot Wal-Mart Discount City in Troy, Missouri, celebrated its Grand Opening on March 4, 1975.



Wal-Mart shoppers travel from miles around to participate in new store openings and to take advantage of Grand Opening sales.

Local city officials and other dignitaries are always on hand to extend a warm welcome to Wal-Mart management.

During fiscal 1976, twenty-two new units were opened, for a total of 993,436 square feet of additional store space. Five stores were opened in Arkansas. They are located in North Little Rock, Little Rock, Fort Smith, *Rogers, and Batesville. One unit was opened in Chanute, Kansas, and two in Louisiana, located in Bastrop and Vivian. Two stores were added in Mississippi — one in Starkville and the other in Booneville; and three in Missouri — Cameron, Troy and Jackson. Eight new stores began operations in Oklahoma. They are located in Guthrie, Chickasha, Broken Bow, Shawnee, Okmulgee, Seminole, Ardmore and Muskogee. The opening of the new 41,400 square foot store in Mount Pleasant, on November 11, 1975, marked Wal-Mart's entry into the state of Texas, and expanded its operations to embrace a nine-state region.

Plans for fiscal 1977 include the opening of several more stores in northeastern Texas and the projection of approximately 25 new stores and two relocations in all for the year. The new stores planned will be in the Company's present marketing area.

**A Ben Franklin variety store was closed in January, 1976.*

Five-Year Summary

(Dollar amounts in thousands except for per share data)

EARNINGS	1976	1975	1974	1973	1972
Net sales	$340.331	$236.209	$167.561	$124.889	$78.015
Leased department rentals and other income — net	3.803	2.478	1.805	1.558	846
Cost of sales	251.473	176.591	123.339	93.090	58.592
Operating, selling and general and administrative expenses	68.105	48.088	33.044	23.848	14.285
Interest and debt expense	1.758	1.800	1.099	592	415
Taxes on income	11.292	5.855	5.725	4.326	2.662
Net income	11.506	6.353*	6.159	4.591	2.907
Per share:**					
Net income (Assuming full dilution)	$ .80	$ .48*	$ .47	$ .35	$ .24
Dividends	.065	.05	.025	—	—
Stores in operation at the end of the period	125	104	78	64	51
FINANCIAL POSITION					
Current assets	$ 76.070	$ 55.860	$ 45.254	$ 32.787	$21.069
Net property, plant and equipment	23.646	19.157	14.657	13.233	7.080
Total assets	100.249	75.221	60.106	46.241	28.463
Current liabilities	32.945	26.190	18.122	15.990	12.806
Long-term debt	17.531	11.132	10.578	5.066	4.659
Stockholders' equity	48.454	36.935	30.734	24.754	10.748

**See Note 2 to financial statements for information concerning adoption of LIFO method of costing inventories which resulted in a reduction in net income of $2.347.000 or $.18 per share.*

***Restated for the two-for-one stock split in 1976.*

Management's Analysis of Summary of Earnings

Year ended January 31, 1976

During 1976, Wal-Mart continued an aggressive sales promotion program which, combined with favorable economic trends and our planned expansion program, resulted in a 44% increase in sales over 1975. The 21 new stores (968,436 square feet) opened this year accounted for 18% of the increase, while the 26 stores opened in fiscal 1975 accounted for 11% of the increase and the remaining 15% of the increase was contributed by stores opened prior to January 31, 1974. Cost of sales increased 42% and gross margins increased to 26.1% of sales in 1976, compared with gross margins of 25.2% in 1975. The Company was able to increase initial markup through volume purchasing, improved distribution systems, and refinement of our merchandise mix. Although the increase was slightly more than offset by increased markdowns and shrinkage, gross margin increased after LIFO adjustments in 1976.

Leased department sales and rentals increased in proportion to Company sales. The increase in leased department rentals and other income from 1.05% of sales in 1975 to 1.12% of sales in 1976 is due to increases in interest income and gain on sale of land.

Operating, selling, and general and administrative expenses increased 41% and amounted to 20.0% of sales compared to 20.4% in 1975. Salaries and wages were the same percent of sales in both years. Advertising expense was 1.3% of sales in 1976 compared to 1.4% in 1975. Total rent which includes building, data processing and transportation equipment rentals was 2.4% of sales in both 1976 and 1975. Building rentals decreased to 1.8% of sales from 1.9% of sales in 1975 as a result of increased sales volume.

Interest and debt expense decreased in 1976 because of improved cash flow generated through inventory control resulting in lower average borrowings combined with lower interest rates on borrowings.

Taxes on income in 1976 increased over those for 1975 due to the increase in income before taxes. Taxes on income as a percentage of income before taxes increased slightly over those for 1975.

Year ended January 31, 1975

The 26 new stores (1,083,326 square feet) opened in fiscal 1975 (including two Home Improvement Centers) accounted for 19% of the 41% increase in sales over 1974. The 21 stores opened during 1974 accounted for 13% of the increase, and 9% was contributed by stores opened in prior years. Cost of sales increased 43% of which 4% is attributable to the change to the LIFO method of costing inventories. The Company was able to pass through price increases in merchandise and remain competitive. Gross margins declined to 25.2% in 1975 from 26.4% in 1974, after LIFO adjustments in 1975. However, gross margins before LIFO adjustments increased over 1974 as a result of the benefits of increased volume purchases and utilization of warehouse distribution facilities.

Leased department rentals and other income decreased from 1.08% of sales in 1974 to 1.05% of sales in 1975. Leased department sales did not increase in proportion to the increase in Company sales.

Operating, selling, general and administrative expenses increased 46% to 20.4% of sales as compared to 19.7% in 1974. Salaries and wages accounted for a significant portion of the increase. The Company had an aggressive sales promotion program during 1975 which resulted in an increase in advertising expense to 1.4% of sales as compared to 1.2% for 1974. Total rent expense increased to 2.4% of sales from 2.2% due to increased building, data processing and transportation equipment rentals. Building rentals increased to 1.9% of sales from 1.8% due to the increased cost of obtaining new leases.

Interest and debt expense increased primarily due to increased interest rates and additional bank borrowings.

Net income for 1975 was materially affected by the change to the LIFO method of costing inventories; however, it is Management's opinion that the LIFO method will more accurately match costs with revenue in periods of rising prices. The cash flow generated by the change will be utilized as working capital. Before giving effect to the change, there was a 41% increase over net income for 1974. The change reduced net income for the year ended January 31, 1975 by $2,347,000 or $.18 per share, after giving effect to the two-for-one stock split.

As the Company's effective income tax rate has consistently approximated 48%, the change in the provision for taxes paralleled that in income before income taxes.

Consolidated Balance Sheet

ASSETS	January 31, 1976	January 31, 1975
Current assets:		
Cash	$ 1,527,000	$ 3,175,000
Short-term money market investments	6,860,000	—
Receivables	2,576,000	1,407,000
Inventories (Note 2)	64,371,000	50,582,000
Prepaid expenses	736,000	696,000
TOTAL CURRENT ASSETS	76,070,000	55,860,000
Property, plant and equipment, at cost (Note 3):		
Land	2,520,000	2,220,000
Buildings and improvements	8,381,000	6,473,000
Fixtures and equipment	18,446,000	14,244,000
Transportation equipment	394,000	274,000
	29,741,000	23,211,000
Less accumulated depreciation	6,095,000	4,054,000
Net property, plant and equipment	23,646,000	19,157,000
Other assets and deferred charges	533,000	204,000
	$100,249,000	$75,221,000

LIABILITIES AND STOCKHOLDERS' EQUITY	January 31, 1976	January 31, 1975
Current liabilities:		
Notes payable	$ 2,470,000	$ 4,470,000
Accounts payable	17,750,000	14,090,000
Accrued liabilities:		
Salaries	3,637,000	2,210,000
Taxes, other than income	1,480,000	1,005,000
Other	1,443,000	948,000
Accrued federal and state income taxes (Note 6)	5,662,000	1,427,000
Long-term debt due within one year (Note 3)	503,000	2,040,000
TOTAL CURRENT LIABILITIES	32,945,000	26,190,000
Long-term debt (Note 3)	17,531,000	11,132,000
Deferred income taxes	1,319,000	964,000
Commitments (Note 7)		
Stockholders' equity (Note 4):		
Preferred stock, \$.10 par; 1,000,000 shares authorized, none issued	—	—
Common stock, \$.10 par; 20,000,000 shares authorized, 13,418,063 shares outstanding (1975 — 6,659,650 shares)	1,342,000	666,000
Capital in excess of par value	14,239,000	14,034,000
Retained earnings (Note 3)	32,873,000	22,235,000
TOTAL STOCKHOLDERS' EQUITY	48,454,000	36,935,000
	$100,249,000	$75,221,000

See accompanying notes.

Consolidated Statement of Income and Retained Earnings

	Years ended January 31.	
	1976	1975
Number of stores in operation at the end of the year	125	104
Revenues:		
Net sales	**$340,331,000**	$236,209,000
Rentals from leased departments (Note 5)	**2,620,000**	1,812,000
Other income — net	**1,183,000**	666,000
	344,134,000	238,687,000
Costs and expenses:		
Cost of sales	**251,473,000**	176,591,000
Operating, selling and general and administrative expenses	**68,105,000**	48,088,000
Interest and debt expense	**1,758,000**	1,800,000
	321,336,000	226,479,000
Income before income taxes	**22,798,000**	12,208,000
Provision for federal and state income taxes (Note 6):		
Current	**10,937,000**	5,563,000
Deferred	**355,000**	292,000
	11,292,000	5,855,000
Net income	**11,506,000**	6,353,000
Retained earnings, beginning of year	**22,235,000**	16,541,000
	33,741,000	22,894,000
Dividends paid (1976 — $.065 per share; 1975 — $.05 per share)	**868,000**	659,000
Retained earnings, end of year (Note 3)	**$ 32,873,000**	$ 22,235,000
Net income per share (Note 4):		
Primary	**$.83**	$.48
Fully diluted	**.80**	.48

See accompanying notes.

Consolidated Statement of Changes in Financial Position

	Years ended January 31. 1976	1975
Source of funds:		
Current operations:		
Net income	**$11,506,000**	$ 6,353,000
Items not affecting working capital in the current period:		
Depreciation	**2,075,000**	1,492,000
Amortization of deferred charges	**35,000**	27,000
Deferred income tax	**355,000**	292,000
Total from current operations	**13,971,000**	8,164,000
Retirement of property, plant and equipment	**99,000**	79,000
Property sold under sale and leaseback arrangements	**1,619,000**	4,655,000
Net proceeds from exercise of options and warrants for common stock and conversion of debentures	**881,000**	507,000
Additions to long-term debt	**15,303,000**	4,645,000
	31,873,000	18,050,000
Application of funds:		
Additions to property, plant and equipment	**5,300,000**	6,825,000
Property additions acquired, subject to sale and leaseback arrangements	**2,982,000**	3,901,000
Reduction in long-term debt, including changes in current maturities	**8,904,000**	4,091,000
Dividends paid	**868,000**	659,000
Additions to other assets and deferred charges	**364,000**	36,000
	18,418,000	15,512,000
Increase in working capital	**$13,455,000**	$ 2,538,000
Changes in components of working capital:		
Increase (decrease) in current assets:		
Cash	**$ (1,648,000)**	$ 937,000
Short-term money market investments	**6,860,000**	—
Receivables	**1,169,000**	196,000
Inventories	**13,789,000**	9,111,000
Prepaid expenses	**40,000**	362,000
	20,210,000	10,606,000
Increase (decrease) in current liabilities:		
Notes payable	**(2,000,000)**	4,470,000
Accounts payable	**3,660,000**	814,000
Accrued liabilities:		
Salaries	**1,427,000**	395,000
Taxes, other than income	**475,000**	348,000
Other	**495,000**	383,000
Accrued federal and state income taxes	**4,235,000**	79,000
Long-term debt due within one year	**(1,537,000)**	1,579,000
	6,755,000	8,068,000
Increase in working capital	**$13,455,000**	$ 2,538,000

See accompanying notes.

Notes to Consolidated Financial Statements

January 31, 1976 and 1975

Note 1 — Accounting policies

Consolidation — The consolidated financial statements include the accounts of all subsidiaries.

Inventories — Inventories are stated at cost (last-in, first-out), which is not in excess of market, using the retail method for inventories in stores.

Pre-opening costs— Costs associated with the opening of new stores are expensed during the first month of operations. The costs are carried as prepaid expenses prior to the store opening.

Interest during construction — In order that interest and debt expense properly reflect only that relating to current operations, interest on borrowed funds during the construction of property, plant and equipment is capitalized and subsequently amortized by charges to earnings over the depreciable life of the related asset. Interest and debt expense and interest capitalized during construction exclude amounts related to properties constructed under sale and leaseback transactions, which amounts are recovered on sale of property.

Depreciation — Depreciation for financial statement purposes, is provided on the straight-line method over the estimated useful lives of the various assets. For income tax purposes, accelerated depreciation is used with recognition of deferred income taxes for the resulting timing differences.

Net income per share — Primary net income per share is based on average outstanding shares and stock options reduced by shares assumed to have been purchased with proceeds from such options under the treasury stock method.

Fully diluted net income per share gives effect to more dilutive market prices in calculations under the treasury stock method and further assumes the conversion of convertible subordinated debentures as if converted at the beginning of the period after giving effect to the elimination of interest expense, less income tax effect, applicable to the debentures.

Operating, selling and general and administrative expenses — Buying, warehousing and occupancy costs are included in operating, selling and general and administrative expenses.

Stock options — Proceeds from the sale of common stock issued under stock option plans are accounted for as capital transactions and no charges or credits are made to income in connection with the plans.

Note 2 — Inventories

The Company changed its method of determining inventory cost from the first-in, first-out (FIFO) method to the last-in, first-out (LIFO) method effective January 31, 1975. The use of the LIFO method results in improved cash flow and more closely matches current costs with current revenues in periods of inflation. The effect of the change was to reduce net income for the year ended January 31, 1975 by $2,347,000 ($.18 per share) from that which would otherwise have been reported.

Inventories at January 31 consist of:

	1976	1975
Stores in operation	$57,371,000	$46,856,000
Distribution centers	12,080,000	6,871,000
New stores not opened	2,001,000	1,549,000
	71,452,000	55,276,000
Reduction to LIFO cost	7,081,000	4,694,000
	$64,371,000	$50,582,000

Note 3 — Long-term debt

Long-term debt at January 31 consists of:

	1976	1975
6½% convertible subordinated debentures, due 1995	$14,370,000	$ —
Revolving bank loan	—	5,056,000
9¼% mortgage note, payable $68,822 quarterly (including interest) to June, 1992	2,256,000	2,319,000
9¾% notes, payable $180,000 annually (plus interest) to April, 1980	689,000	869,000
Capitalized lease obligation	—	2,675,000
Other	216,000	213,000
	$17,531,000	$11,132,000

Annual maturities on long-term debt during the next five years are: 1977, $503,000; 1978, $310,000; 1979, $311,000; 1980, $298,000; and 1981, $273,000.

The convertible subordinated debentures are convertible into common stock at a rate of 93 shares per $1,000, subject to adjustments on the occurrence of certain events. The debentures are redeemable at the Company's option at any time with a minimum payment equal to 106¼% of the principal, and require sinking fund payments beginning on June 1, 1986. Aggregate debentures of $630,000 were converted into common stock during the year.

The agreement relating to the 9¾% notes includes certain restrictions on dividends, additional debts and leases, and sale of assets and contains covenants concerning working capital. The agreement relating to the 9¼% mortgage notes of a subsidiary, which are guaranteed by Wal-Mart Stores, Inc., contains certain restrictions on the subsidiary concerning additional debt, business activities, investments and issuance of its capital stock and

requires rental payments by Wal-Mart Stores, Inc., on certain buildings leased from the subsidiary in amounts equal to aggregate note and interest payments.

Under the most restrictive of the above agreements, retained earnings of $22,235,000 were restricted at January 31, 1976.

The Company has purchased the bonds which are secured by the capitalized lease for the office and distribution centers located in Bentonville, Arkansas.

Note 4 — Stockholders' equity

In 1976 the Company increased its authorized preferred stock from 500,000 to 1,000,000 shares and its common stock from 11,000,000 to 20,000,000 shares. Common stock outstanding was increased 6,687,789 shares by a two-for-one stock split effective August 19, 1975. At January 31, 1976, 2,537,281 shares of common stock were reserved, including 214,950 shares for issuance under the Company's qualified stock option plan for employees, 985,587 shares for issuance under the nonqualified stock option plan, and 1,336,744 shares for the conversion of convertible subordinated debentures. The options under the qualified stock option plan expire five years from date of grant and may be exercised in four annual installments. The options granted under the nonqualified stock option plan expire ten years from date of grant and may be exercised in nine annual installments. Capital in excess of par value increased during the year by $205,000 which includes increases of $626,000 from conversion of debentures, $173,000 from exercise of stock options, and $91,000 relating to the tax benefit resulting from certain stock option transactions and reductions of $685,000 including $669,000 relating to the two-for-one stock split.

Further information concerning the options is as follows:

		Option price (Market price at date of grant)	
	Shares	Per share	Total
Shares under option:			
(Adjusted for stock split)			
January 31, 1975	846,600	$2.06-$14.25	$3,627,250
Options granted	46,000	$4.00-$11.50	452,500
Options cancelled	(21,200)	$4.1875	(88,775)
Options exercised	(40,163)	$2.06-$8.125	(176,473)
January 31, 1976 (90,398 shares exercisable)	831,237		$3,814,502
Shares available for option:			
January 31, 1975	394,100		
January 31, 1976	369,300		

Note 5 — Leased department sales

The sales of leased departments as reported by lessees are $28,407,000 and $19,609,000 for 1976 and 1975, respectively.

Note 6 — Income taxes

The provision for income taxes consists of the following:

	1976	1975
Current:		
Federal	$ 9,924,000	$5,000,000
State	1,013,000	563,000
Deferred:		
Relating to difference in tax and financial depreciation methods	355,000	291,000
Other	—	1,000
	$11,292,000	$5,855,000

Investment tax credits are accounted for under the flow-through method and have resulted in reductions of the current federal income tax provisions for 1976 and 1975 of $475,000 and $304,000, respectively.

Note 7 — Long-term lease commitments

The Company and certain of its subsidiaries have leases for stores and transportation equipment. Rentals (including for certain leases, amounts applicable to taxes, insurance, maintenance and other operating expenses) under all leases were $7,668,000 in 1976 and $5,146,000 in 1975. Rentals on noncapitalized financing leases (as defined by the Securities and Exchange Commission) were $4,360,000 in 1976 and $3,030,000 in 1975.

The present value of minimum rentals of all leases was $53,319,000 at January 31, 1976, and $35,461,000 at January 31, 1975, including amounts applicable to noncapitalized financing leases of stores of $38,416,000 at January 31, 1976, and $25,527,000 at January 31, 1975, and other noncapitalized financing leases of $2,868,000 at January 31, 1976, and $1,122,000 at January 31, 1975. Certain of the leases provide for additional rentals based on percentage of sales. Such additional rentals amounted to $289,000 in 1976 and $120,000 in 1975.

The weighted average interest rate used in discounting the financing leases was 9.25% in 1976 and the rates ranged from 8%-11%. If all financing leases had been capitalized and amortized on a straight-line basis and interest accrued on the basis of the outstanding liability, the effect on net income would have been a decrease of approximately $515,000 in 1976 and $308,000 in 1975. Such calculations, which give effect to related income tax, include interest expense of $3,072,000 and $1,877,000, and amortization expenses of $2,308,000 and $1,312,000 in 1976 and 1975, respectively.

Aggregate minimum annual rentals at January 31, 1976, under noncancelable leases for 1977 through 2002 are as follows:

	Financing Leases	All Leases
1977	$ 5,552,000	$ 7,554,000
1978	5,428,000	7,309,000
1979	5,098,000	6,818,000
1980	4,921,000	6,611,000
1981	4,850,000	6,495,000
1982/1986	22,685,000	29,837,000
1987/1991	22,488,000	24,145,000
1992/1996	15,662,000	15,682,000
1997/2002	2,050,000	2,050,000
	$88,734,000	$106,501,000

The total lease commitments by type of property are as follows:

Stores	$103,153,000
Transportation equipment	3,348,000
	$106,501,000

Substantially all of the store leases have renewal options for additional terms from five to fifteen years at the same or lower minimum rentals. In addition, the Company has entered into lease agreements for land or buildings for 24 future stores at aggregate minimum annual rentals of $2,029,000.

Report of Certified Public Accountants

The Board of Directors and Stockholders
Wal-Mart Stores, Inc.

We have examined the accompanying consolidated balance sheet of Wal-Mart Stores, Inc. and subsidiaries at January 31, 1976 and 1975 and the related consolidated statements of income and retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Wal-Mart Stores, Inc. and subsidiaries at January 31, 1976 and 1975 and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Tulsa, Oklahoma
March 26, 1976

Arthur Young & Company

Market Price of Common Stock

Year ended January 31

	1976		1975*	
Quarter	High	Low	High	Low
1st	*$10.3125	$ 7.00	$ 9.375	$7.25
2nd	* 13.1875	8.50	10.25	7.50
3rd	* 15.125	11.375	9.8125	5.50
4th	15.75	12.625	7.6875	3.6875

Dividends Paid

Year ended January 31

Quarterly 1976	Semiannual* 1975
*$.015 April 4, 1975	$.025 April 5, 1974
*$.015 July 1, 1975	
$.015 October 3, 1975	$.025 August 7, 1974
$.02 January 2, 1976	

Restated for the two-for-one stock split in 1976.

FORM 10-K

A copy of the Company's annual report on Form 10-K, as filed with the Securities and Exchange Commission, will be furnished without charge to any shareholder upon written request to the Treasurer, Wal-Mart Stores, Inc., P. O. Box 116, Bentonville, Arkansas 72712.

Wal-Mart Stores, Inc. Directors and Officers

***Ronald Mayer**
Director.
Chairman and Chief Executive Officer

***Ferold G. Arend**
Director.
President and Chief Operating Officer

***Sam M. Walton**
Director.
Chairman of the Executive Committee

***J. L. Walton**
Director.
Senior Vice President

James H. Jones
Director.
Banking and Investments

H. L. Remmel
Director.
Retired Senior Vice President and Consultant.
White, Weld & Co., Inc.,
New York, New York

Jackson T. Stephens
Director.
President, Stephens Inc.,
Little Rock, Arkansas

Theo Ashcraft
Vice President,
Leased Departments

Dan Davies
Assistant Controller

Ruby Norman Davies
Assistant Controller

M. I. Dillard
Vice President,
Southern Region

James A. Dismore
Vice President, Sales

James R. Elliott, Jr.
Vice President,
Personnel and Training

Kenneth Folkerts
Treasurer and Assistant Secretary

C. Ray Gash
Controller

R. Claude Harris, Jr.
Vice President,
New Store Marketing

John Hawks
Vice President,
Central Region

Bette Hendrix
Assistant Secretary

Thomas Jefferson
Vice President,
Northern Region

H. G. Rountree
Vice President,
Public Relations

Jack Shewmaker
Vice President,
Operations

Richard D. Tucker
Vice President,
General Merchandise Manager

James A. von Gremp
Assistant Controller

S. Robson Walton
Secretary and General Counsel,
Partner, Conner, Winters, Ballaine, Barry & McGowen,
Tulsa, Oklahoma

C. Don Whitaker
Vice President,
Real Estate and Construction

*Members of the Executive Committee

COUNSEL

Conner, Winters, Ballaine, Barry & McGowen
2400 First National Tower
Tulsa, Oklahoma 74103

REGISTRAR & TRANSFER AGENT

Registrar & Transfer Company
34 Exchange Place
Jersey City, New Jersey 07302

CERTIFIED PUBLIC ACCOUNTANTS

Arthur Young & Company
1500 First Place
Tulsa, Oklahoma 74103

GENERAL OFFICE

P.O. Box 116
Bentonville, Arkansas 72712
501-273-7741

ANNUAL MEETING

June 11, 1976 — 11 A.M.
General Office, 702 SW 8th Street
Bentonville, Arkansas 72712

The Common Stock of
Wal-Mart Stores, Inc.
is traded on the
New York Stock Exchange.
Symbol: WMT